



STATE OF ALABAMA

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Statement from Commissioner Terry Dunn

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Alagasco decision reflects real progress, But work left to be done at Alabama PSC

MONTGOMERY, Ala. – As a result of today’s reduction of Alabama Gas Corp.’s allowed return on equity, that ROE will soon meet the law’s requirement that both customers and regulated companies enjoy the benefits of rates that are “reasonable and just.” I have supported a long-overdue reassessment of the allowed range of return of all three utilities that operate under our formula rate plan, Rate Stabilization and Equalization, or RSE. The others are Mobile Gas Service Corp. and Alabama Power Co.

The informal process established after my call for formal rate hearings last year has produced mixed results, but I supported today’s decision enthusiastically. The lowering of Alagasco’s allowed ROE to an effective midpoint of 10.85 percent was reason enough to back the decision. For decades, the midpoint of the allowed range has been above 13 percent.

Last week, taking note of the PSC’s earlier decisions on Mobile Gas and Alabama Power – and I voted against the Alabama Power decision – Regulatory Research Associates (RRA) had this to say: “While the PSC recently enacted modifications to the mechanisms for two utilities (and is expected to do so later this year for a third company), the equity return ranges included in the modified frameworks remain above the average equity returns that have been authorized [for] energy utilities nationwide over the last few years.”

A couple of weeks earlier, on Oct. 18, and referring specifically to Alagasco’s allowed return of 13.15 percent to 13.65 percent, RRA sister company SNL Financial reported: “This ROE range falls several percentage points higher than the national average for gas utilities, according to data from SNL Energy affiliate Regulatory Research Associates.” The reporter, Sarah Smith, also wrote: “For the 10 gas utility rate cases during the first three quarters of 2013, the average ROE is 9.51%, down from the 2012 full-year average ROE of 9.94%. Over the past decade, ROE for gas utilities has been on a downward trend nationwide, RRA data indicates.”

There are problems with today’s Alabama Gas decision. I put forward no amendments, concerned that doing so could jeopardize the movement of the allowed range of return down to 10.5 percent to 10.95 percent. A 5-basis-point (that is, 0.05 percent) rider makes the effective midpoint 10.85 percent. That’s a lot better than the current 13.4 percent.

Alagasco is an excellent company, and its ROE will remain more than a point higher than the most recent national average. That's why today's decision was in no sense punitive; it was an example of the PSC doing its job – but a job that's more than a decade overdue in this instance. The public may rest assured, as I believe the marketplace will, that an ROE of 10.85 percent is adequate to keep Alabama Gas Corp. financially strong and its performance reliable.

The PSC also took a number of steps to ensure investors in Alagasco's parent company, Energen Corp., are not penalized by the timing of the decision: The change in the company's formula rate plan comes a year earlier than the current RSE for Alabama Gas was due to expire. I believe one can fairly question whether today's ruling goes too far in dampening the impact on the company of the lower ROE range.

However, I am willing to save those questions for another day. And make no mistake: There remains much work to be done at the Alabama Public Service Commission. For now, though, I'm proud to join my fellow commissioners in taking an important step in the right direction.